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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 001945

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EUR FOR DAS BRYZA
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E.O. 12958: DECL: 07/30/2017

TAGS: EPET ENRG TU

SUBJECT: TURKISH ENERGY MINISTER ON GAS TRANSIT AND
IRAN-TURKEY GAS MOU

REF: A. A) SECSTATE 99411
 1B. B) ATHENS 1464
 1C. C) BAKU 0917
 1D. D) ASHGABAT 0729
 1E. E) ANKARA 1850

Classified By: Classified by Ambassador Ross Wilson for reasons 1.4(b)
and (d).

11. (C) Summary: On July 24, Energy Minister Hilmi Guler met with Ambassador to discuss gas transit, energy security, and the preliminary Iran-Turkey gas memorandum of understanding (MOU). Guler expressed frustration with negotiations with Azerbaijan about gas purchase and transit. Guler defended the Turkey-Iran MOU as supporting Turkish and EU energy security. The Ambassador expressed U.S. concerns and explained the potential damage of Turkey's supposed cooperation with Iran. Ambassador pressed Guler to build on the success of TGI and complete the Azeri gas deal as the key next step in Caspian gas strategy. End summary.

Turkey, Greece, Italy Transit Agreement

12. (SBU) Energy Minister Hilmi Guler confirmed that the TGI agreement signed with Greece and Italy stipulates the "net-back" pricing on 15 per cent transit volume that Turkey sought. Guler believes the TGI gas agreement will serve as a model for future Turkey transit agreements. Regarding the changing dates for the first gas ceremony at the Turkey-Greece border, Guler said Turkey and Greece are now looking at September 15.

Gas Transit and Purchase Agreement with Azerbaijan

13. (C) Guler said that Azeri gas deliveries, which began this month, had stopped "for a couple of days" because of pipeline problems on the Azeri side. Turkey's measuring unit, pipelines, and compressors are ready to receive gas. Guler expressed frustration over the first gas commencement date issue and his disagreement with the Azeri proposal for a March 2007 start date. "If we can not agree on commencement date, how can we ever reach agreements on the necessary amendments for gas volumes and price after the initial

period? We want to see this issue resolved." Guler noted appreciation for USG efforts to move the gas transit negotiation forward. Ambassador said the U.S. understands Azerbaijan is ready to meet and that a letter of invitation was sent from FonMin Mammedyarov to Turkish FonMin Gul. Guler was unaware of this letter and asked why the letter was not sent to him. Guler agreed the U.S. could tell Baku of Turkey's readiness to start negotiations.

14. (C) In a separate meeting on July 23, Energy Undersecretary Sami Demirbilek told us he hoped the Azeris would recognize that without Turkey's purchase commitments, Shah Deniz investments would never have been made. Demirbilek explained that the original intention of the supply contract was delivery of 3.3 bcm of gas to Turkey at discounted prices. With the Azeri-proposed commencement date of March 2007, Turkey will likely receive 2 bcm or less. Demirbilek said that the Azeris should reconsider their position on the commencement date so that Turkey can receive the intended volume of discounted gas.

Turkmenistan First

15. (C) The Ambassador briefed Guler on the messages PDAS Mann and others had delivered to Turkmenistan (ref D), regarding the need to create attractive commercial conditions for investment, near-term opportunities to pipe PETRONAS gas westward, and promising discussions beginning on a TCP to be filled from new Turkmen production. The Ambassador downplayed the significance of the May 12 Russo-Turkmen-Kazakh deal. The Ambassador explained the need

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to engage Turkmenistan at an appropriate pace. Recognizing the progress in Turkmenistan, the Ambassador asked pointedly, "How do we get a TCP finalized if there is an Iranian pipeline for Turkmen gas?"

Iran-Turkey MOU

16. (C) Guler explained the Iran-Turkey MOU was signed to meet the energy security needs of Turkey and Europe. EU countries and companies are in continuous negotiation with Iran. Turkey is about to lose its comparative advantage for Turkmen gas because of recent agreements with Russia and China. Guler noted that the U.S. doesn't support Blue Stream II expansion, and there is no clarity on Azeri gas volumes or on the time frame for Iraqi gas. "Where do we buy gas?" Guler emphasized that he does not view Iranian gas as a "Turkey issue" but rather as an EU and U.S. issue. Guler also said the investment envisioned in the Iran MOU would require "at least 3 to 10 years" to realize.

17. (C) In the separate meeting, Demirbilek characterized the Iran-Turkey MOU as "good PR" just prior to the election. He said the MOU lacked important details such as transit terms. Demirbilek believes long and challenging negotiations and "at least 5 to 6 years" would be required.

18. (C) The Ambassador conveyed serious USG concerns to Guler as stated in ref. A. The sudden announcement of the possible transit of Turkmen gas across Iran sends the wrong message to Ashgabat. The Ambassador urged Guler to restate Turkey's priority for TCP to Berdimuhamedov. Iranian control over Turkmen gas will be no more helpful to Turkey than Russian control of Turkey's supply. The Ambassador brought up UNSC resolutions 1737 and 1747, and the likelihood of additional sanctions, and he questioned Turkey's possible investment in Iran's energy sector. Since the Iran nuclear crisis began, not a single MOU by a foreign country or company has been realized because companies recognize the risks. The Ambassador also raised the Iran Sanctions Act (ISA). The

Ambassador said the U.S. has not had a big problem with Turkey's limited volume purchases of Iranian gas but has many concerns about investment in Iran, large-scale energy reliance on Iran, and Turkmen gas transit through Iran that could render TCP unviable.

How do I do my job?

¶19. (C) Guler recounted several meetings with Ambassador, Secretary Bodman and others where he had explained Turkey's

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gas needs. The U.S. has given Turkey few alternatives: the USG is against Blue Stream II; by 2011, the first Russian Westward contract expires; Azerbaijan is without clarity; Iran is risky and unreliable; and there has been no progress in either Turkmenistan or Iraq. "How do I do my job?"

¶10. (C) The Ambassador explained that Blue Stream expansion increases Turkey's reliance on Russia and bottles up Caspian gas. Iran is unreliable and high risk. We recognize and sympathize with Turkey's situation but the answer for Turkey and for Europe is to work together and "make the Caspian Energy Strategy work." The key next step is to complete Turkey's purchase and transit agreement with Azerbaijan thereby countering those who doubt Azeri gas will ever reach Turkey and Europe. Turkey will send a strong signal to Turkmenistan, Kazakhstan, and others that there exists a working route to market for Caspian gas. Building on Turkey's success with Greece and Italy, this agreement will get the East-West Energy Strategy back on track.

¶11. (C) Guler reiterated Turkish support for TCP which he said he had conveyed to President Berdimuhamedov. Guler explained, however, that concrete steps for TCP must be taken quickly. Guler repeated that energy supply security is vital for Turkey. Turkmenistan has signed a deal with China, but the U.S. has not responded. The U.S. also had no reaction when Russia took a majority share of the

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Bourgas-Alexandroupolis (BA) oil bypass. Shell, Total, and PETRONAS are doing business in Iran. What if Russia builds the South Stream pipeline? Winter is coming; there's not enough water to make electricity for our dams. Turkey has no agreement on the commencement date with the Azeris. The U.S. ISA legislation matters, and Turkey understands U.S. sensitivities about Iran. But the U.S. needs to consider Turkey's energy needs which are time-dependent.

¶12. (C) Comment: Although TCP remains a priority for Turkey, Guler also views Turkey's transit country aspirations being preempted by Russia's recent gas transit announcements and the prospects that some European countries will make premature and long-term contracts with Gazprom. The key to breaking through Guler's laments is to get progress on the Caspian and perhaps also Iraqi pieces of our regional energy efforts. Ambassador recognized that all these are legitimate issues. The key to overcoming Turkey's and the region's energy problems is to realize progress on the pieces we have worked--without sufficient success--for over a year. He expressed frustration that both the Azeris and the Turks have expressed readiness for a month or more to hold talks on a transit agreement, but nothing has happened. This isn't what countries that need to sell and buy gas should do. An equally frustrated Guler concluded that he is ready to cancel all his appointments and meet immediately with the Azeris and any others to get matters moving. End comment.

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